

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03
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R 031524Z MAY 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 4630

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E.O. 11652: N/A
TAGS: ETRA, ECON, PFOR, EG
SUBJECT: CHANGES IN GOE PRIVATE SECTOR IMPORT POLICY

SUMMARY: FOLLOWING 1974 SINAI DISENGAGEMENT AGREEMENT, GOE USED RELAXED RESTRICTIONS ON PRIVATE SECTOR IMPORTS TO MEET EXPECTATIONS OF NEW FREEDOM AND TO ENCOURAGE PRIVATE-SECTOR PARTICIPATION IN RECONSTRUCTION EFFORT, BY MAKING RAW AND INTERMEDIATE MATERIALS MORE READILY AVAILABLE. EVEN THOUGH MANY IMPORTS WERE FINANCED THROUGH CURRENCY OWNED BY EGYPTIANS ABROAD (OWN-CURRENCY IMPORTS) AND THEREFORE DID NOT REPRESENT DIRECT BOP PROBLEM, RELAXATION OF RESTRICTIONS RESULTED MAINLY IN CONSPICUOUS CONSUMPTION OF LUXURY IMPORTS BUT APPARENTLY DID NOT CONTRIBUTE SIGNIFICANTLY TO RECONSTRUCTION OR DOMESTIC INVESTMENT. UNDER PRESSURE FROM IMF TO LIMIT IMPORTS ACROSS BOARD, GOE HAS REINSTATED MANY IMPORT RESTRICTIONS AND SEEMS TO BE MOVING TOWARD TIGHT CONTROLS ON CONSUMER IMPORTS WITH SELECTIVE STIMULATION OF CAPITAL IMPORTS IN AREAS WHERE PRIVATE SECTOR PARTICIPATION IS DESIRED. END SUMMARY.

1. NOWHERE WAS ANTICIPATION OF NEW FREEDOM AND BETTER LIFE, FOLLOWING SUCCESSFUL COMPLETION OF FIRST SINAI DISENGAGEMENT AGREEMENT OF 1974, GREATER THAN IN EGYPT'S PRIVATE SECTOR.

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GOE MOVED QUICKLY TO MEET PRIVATE SECTOR EXPECTATIONS IN HOPE OF ENCOURAGING PARTICIPATION IN ENORMOUS JOB OF ECONOMIC RECONSTRUCTION. IMPORT LIBERALIZATION WAS MAINSTAY OF GOVERNMENT'S EFFORTS IN THIS REGARD. IN SEPTEMBER 1973 PARALLEL MARKET WAS INSTITUTED FOR PURPOSE OF ATTRACTING EGYPTIAN OWNED FX DEPOSITS FROM ABROAD AND, IN TURN, FOR FINANCING PENT-UP DEMAND FOR IMPORTS WHICH EXISTED AS RESULT OF TEN YEARS

OF STRICT CONTROLS. BOTH EGYPTIANS AND RESIDENT FOREIGNERS WERE ALLOWED TO IMPORT THROUGH PARALLEL MARKET, WITHOUT LICENSE, CONSUMER GOODS, RAW MATERIALS, INTERMEDIATE INDUSTRIAL GOODS AND PROFESSIONAL EQUIPMENT UP TO A LIMIT OF LE 5,000 PER TRANSATION. LEGISLATION ENACED IN JUNE 1974 PERMITTED EGYPTIANS WHO OWNED CURRENCY ABROAD TO IMPORT SOME 87 COMMODITIES WITHOUT NEED TO IDENTIFY SOURCE OF FOREIGN EXCHANGE. LIST OF ALLOWABLE COMMODITIES WAS INCREASED TO 145 (SEE CAIRO A-198, 12,3/74) BEFORE END OF 1974. PRIVATE SECTOR IMPORT LIBERALIZATION CONTINUED THROUGH 1975 WHEN EGYPTIANS AND RESIDENT FOREIGNERS WERE ALLOWED TO IMPORT ANY AND ALL GOODS EXCEPT THOSE IN 18 CATEGORIES (BASIC SUPPLY COMMODITIES) WHICH WERE RESERVED FOR PUBLIC SECTOR.

2. MOST GOODS IMPORTED UNDER THESE RELAXED RESTRUCTIONS CAME THROUGH OWN-CURRENCY PROGRAM, WHICH MANY BELIEVED UNDERMINED POTENTIAL EFFECTIVENESS OF PARALLEL MARKET. BASED UPON STATISTICS AVAILABLE FROM CENTRAL BANK, PARALLEL MARKET DID ATTRACT IMPORTS OF SOME INTERMEDIATE AND INDUSTRIAL GOODS BUT DEMAND FOR FOREIGN EXCHANGE EXCEEDED SUPPLY. IN ADDITION, MOST VISIBLE IMPACT OF OWN-CURRENCY IMPORTS SEEMED TO BE CONCENTRATED ON LUXURY GOODS, INCLUDING CARS AND CONSUMER DURABLES. AVAILABILITY OF NON-ESSENTIAL CONSUMER GOODS FOR SALE SIGNIFICANTLY INCREASED; EXPECTED INCREASE IN INVESTMENT AND CAPITAL GOODS DID NOT MATERIALIZE. EFFECT OF RELAXED IMPORT RESTRICTIONS ON ECONOMIC RECONSTRUCTION, THEREFORE, WAS MUCH LESS THAN DESIRED.

3. AT THE SAME TIME, PUBLIC SECTOR IMPORTS OF BASIC COMMODITIES SKYROCKETED BECAUSE SADAT REGIME PERCIEVED STABILITY OF SUPPLY AS DIRECTLY RELATED TO ITS CONTINUATION IN POWER. AS RESULT, FX LIMITED OFFICIAL USE

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SHORTAGE WORSENERD AND IMF AND OTHER AID DONORS URGED GOE TO LIMIT ALL IMPORTS, ESPECIALLY LUXURY GOODS. SIGNIFICANTLY, MOST PRIVATE SECTOR IMPORTS CAME FROM OWN-CURRENCY PROGRAM. THEREFORE THEY DID NOT DIRECTLY STRAIN BOP. HOWEVER, SINCE ALTERNATIVE GOVERNMENT POLICIES COULD HAVE ENCOURAGED THE DIRECT REMITTANCE OF OVERSEAS FOREIGN EXCHANGE EARNINGS RATHER THAN THEIR TRANSFER IN THE FORM OF PERSONAL CONSUMER DURABLE IMPORTS, THE EFFECT OF THE OWN-EXHCANGE PROGRAM WAS TO REDUCE THE FOREIGN EXCHANGE POTENTIALLY AVAILABLE TO THE DEVELOPMENT EFFORT. THE LUXURY COMPONENT OF THESE IMPORTS MADE CONTINUATION OF RELAXED IMPORT POLICY INCREASINGLY HARD TO JUSTIFY. PERHAPS MORE IMPORTANTLY, MANY EGYPTIANS INSENSITIVELY AND CONSPICUOUSLY FLAUNTED THEIR NEWLY AVAILABLE LUXURIES IN FRONT OF STILL HARD-PRESSED WORKING MASSES, THEREBY THREATENING WHOLE IMAGE OF ECONOMIC LIBERALIZATION.

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4. PRIMARILY AS RESULT OF SOCIAL/CLASS PROBLEMS POSED BY THE CONSPICUOUS CONSUMPTION OF GOODS IMPORTED UNDER RELAXED RESTRICTIONS AND PARTIALLY BECAUSE OF PRESSURE FROM IMF TO RESTRICT IMPORTS ACROSS THE BOARD, GOE IN MID-1976 BEGAN TO CLOSE DOOR ON PRIVATE SECTOR IMPORTS. RESIDENT FOREIGNERS WERE PROHIBITED FROM IMPORTING DIRECTLY. LE 5,000 LICENSE-FREE IMPORT TRANSACTION IN PARALLEL MARKET WAS ABANDONED. IMPORT LICENSES WERE REINSTATED AS REQUIREMENT FOR MOST IMPORTED GOODS AND PUBLIC SECTOR LIST OF RESERVED IMPORTS WAS RE-EXPANDED FROM 18 TO 36 CATEGORIES. EGYPTIANS MAY, HOWEVER, STILL IMPORT CONSUMER DURABLES AND PROFESSIONAL EQUIPMENT FOR THEIR OWN USE WITHOUT LICENSE. IN ADDITION TO THESE DIRECT CONTROLS (AT AT IMF URGING) BASIS FOR COMPUTING CUSTOM DUTIES ON MANY ITESM WAS SHIFTED FROM OFFICIAL RATE TO PARALLEL MARKET RATE IN AN ATTEMPT BOTH TO GENERATE ADDITIONAL REVENUE AND TO RESTRICT LUXURY IMPORTS. IN JANUARY 1977, MINISTER OF TRADE ANNOUNCED THAT AS OF MAY 15, PROFITS ON SALES OF ALL IMPORTED GOODS WILL BE LIMITED TO 30 PERCENT, INCLUDING TOTAL MARK-UP BY WHOLESALERS AND RETAILERS. INDICATIONS POINT TO MORE DIRECT CONTROLS IF THESE MEASURES ARE NOT EFFECTIVE.

5. IN SPITE OF THESE MOVES TO TIGHTEN IMPORT POLICY, GOVERNMENT CONTINUES TO LOOK FOR WAYS TO HARNESS PRIVATE SECTOR FX HOLDINGS
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FOR RECONSTRUCTION AND INVESTMENT. SELECTIVE STIMULATION OF IMPORTS APPEARS BE EMERGING AS POLICY TOOL IN THIS REGARD. IMPORT OF RAW AND INTERMEDIATE MATERIALS FOR LIGHT INDUSTRY AND CONSTRUCTION WILL, ACCORDING TO RECENT MINISTRY OF TRADE

ANNOUNCEMENTS, BE ENCOURAGED THROUGH OWN-CURRENCY PROGRAM BY REMOVING TARRIFS FROM THESE COMMODITIES. MINISTER OF FINANCE ANNOUNCED STUDY OF CUSTOMS EXEMPTION SYSTEM TO ASSURE GOODS EXEMPTED CONTRIBUTE TO ECONOMIC DEVELOPMENT.

6. COMMENT: GOE'S EVOLVING PRIVATE SECTOR IMPORT POLICY OVER PAST THREE YEARS UNDERSCORES TWO OF ECONOMY'S BASIC PROBLEMS, I.E., HOW TO DEAL WITH INCREASING POPULAR EXPECTATIONS FOR BETTER ECONOMIC CONDITIONS AND TO STIMULATE ECONOMIC DEVELOPMENT, BOTH OF WHICH REQUIRE LARGE-SCALE IMPORTS, GIVEN CONTINUING SHORTAGE OF FOREIGN EXCHANGE. ONE IMPORTANT ASPECT OF PROBLEM IS HOW TO PROVIDE INCENTIVES (BOTH IN TERMS OF EXCHANGE RATES AND DOMESTIC INVESTMENT OPPORTUNITIES) FOR REPATRIATION OF FX EARNED AND/OR HELD ABROAD BY EGYPTIANS. CURRENT PLANS TO STIMULATE IMPORTS SELECTIVELY TO ENCOURAGE PRIVATE INVESTMENT WILL BE EFFECTIVE ONLY TO EXTENT THAT BASIC CLIMATE FOR SUCH INVESTMENT IMPROVES, A PROSPECT ABOUT WHICH THERE ARE CURRENTLY MIXED OPINIONS. VARIOUS POLICY CHANGES DURING PAST THREE YEARS NONETHELESS INDICATE SERIOUSNESS OF GOE'S INTENT TO USE IMPORT CONTROLS, OR LACK THEREOF, AS MEANS TO FURTHER GENERAL DEVELOPMENT PLANS.
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